Alberta

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BUDGET 2010

Striking the Right Balance

Third Quarter Fiscal Update 2010–2011

Government of Alberta

February 2011

UPDATING ALBERTANS

The *Third Quarter Fiscal Update* consists of two parts – the updated 2010–11 forecast for the entire fiscal year and the actual results for the first nine months of the fiscal year (April 1 to December 31, 2010).

TABLE OF CONTENTS

2010–11 FORECAST

Highlights 1
- Fiscal Summary 1
- Alberta Sustainability Fund 1

Revenue 2
- Revenue 3

Expense 4
- Expense Summary 5
- Expense by Ministry 5

Capital Plan 6
- Capital Plan Summary 6
- Capital Grants and Other Infrastructure Support 7
- Capital Investment and Amortization 7

Net Financial and Capital Assets 8
- Balance Sheet 8

Other Tables
- Cash Adjustments 9
- Disaster/Emergency Assistance 9
- 2010–11 Fiscal Year Assumptions and Sensitivities 10
- Net Financing Requirements 10

ACTUAL RESULTS 12
- Consolidated Fiscal Summary 13

2010–11 FORECAST

HIGHLIGHTS

Deficit. Forecast at $4.8 billion, $73 million higher than estimated in *Budget 2010* but $184 million lower than the second quarter forecast. The deficit is offset by a transfer from the Sustainability Fund.

Revenue. Forecast at $34 billion, $14 million higher than the budget but $113 million lower than the second quarter forecast. Increased revenue from Crown lease sales, corporate income tax, bitumen royalties and federal transfers is offset by decreased revenue from personal income and other taxes, conventional oil and natural gas royalties, investment income and the impact of higher drilling stimulus initiative claims.

Expense. Forecast at $38.8 billion, $87 million higher than the budget estimate, but $297 million lower than the second quarter forecast. The increase is mainly due to the provision of disaster/emergency assistance, partly offset by lower capital grant expense.

Sustainability Fund. Forecast assets at March 31, 2011 of $11.2 billion, $3 billion higher than the budget estimate and $223 million higher than second quarter. The higher balance is due primarily to $2.2 billion in cash from 2009-10 fourth quarter results transferred in 2010-11 (after March 31, 2010), a large positive swing in the energy royalties cash adjustment, and lower net capital spending cash requirements (see page 9 for details).

FISCAL SUMMARY[a]

(millions of dollars)

	2010-11			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Revenue	33,968	**33,982**	14	(113)
Expense[b]				
Program expense				
Operating expense	33,455	**33,386**	(69)	(110)
Capital grants	4,406	**3,863**	(543)	(353)
Capital amortization and nominal sum disposals	759	**749**	(10)	(16)
In-year savings	(240)	**-**	240	240
Disaster/emergency assistance	-	**502**	502	(32)
Debt servicing costs	336	**303**	(33)	(26)
Total Expense	38,716	**38,803**	87	(297)
Surplus / (Deficit)	(4,748)	**(4,821)**	(73)	184

[a] Subject to the *Fiscal Responsibility Act*. Does not include changes in results of Crown-controlled SUCH sector organizations or pension liabilities, or revenue and expense of Alberta Innovates corporations. Budget revenue and expense have been increased by $6 million to report recreational licensing fees collected by private issuers on a gross, instead of a net, basis, and decreased by $2 million to eliminate double counting of expense related to secondment of staff to the Alberta Law Enforcement Response Team Ltd.

[b] 2010-11 capital investment (not included in expense): 2,802 | 2,398 | (404) | (312)

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2010-11			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Assets at Start of Year	14,983	**14,983**	-	-
Cash transferred from 2009-10 fourth quarter results	-	**2,230**	2,230	-
Transfer to offset deficit	(4,748)	**(4,821)**	(73)	184
Heritage Fund inflation-proofing	(291)	**(304)**	(13)	-
Cash adjustments:				
Capital cash adjustments	(519)	**(253)**	266	292
Retained income of funds and agencies	(341)	**(357)**	(16)	(10)
Other cash adjustments	(868)	**(286)**	582	(243)
Assets at End of Year	8,216	**11,192**	2,976	223

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Resource revenue is forecast at $8 billion, $687 million higher than estimated in *Budget 2010*, and $281 million higher than second quarter. The increase from budget is due primarily to a $1.7 billion increase in Crown lease sales, partially offset by higher drilling stimulus initiative claims and lower oil and gas royalties. Royalties have been impacted adversely by the higher exchange rate, estimated to average 97.96US¢/Cdn$, 2.96¢ higher than budget.

Bitumen royalties are forecast at $3.6 billion, $318 million higher than *Budget 2010* and $274 million higher than the second quarter forecast, due largely to lower-than-expected operator costs. Bitumen prices and production were eroded by pipeline disruptions, but recent strengthening of global oil demand and prices has supported higher bitumen prices since fall 2010.

Conventional oil royalties are forecast at $1.9 billion, a decrease of $225 million from the budget estimate but $101 million higher than the second quarter forecast. Oil prices are forecast to average US$81.45/barrel for the fiscal year, $2.70 and $2.03 higher than the budget and second quarter forecasts, but the impact of the higher exchange rate has more than offset the effect of higher prices.

Natural gas royalties are forecast at $1.7 billion, $207 million lower than estimated in *Budget 2010* and $238 million lower than the second quarter forecast, due mainly to lower prices and the higher exchange rate. The Alberta Reference Price, used to calculate natural gas royalties, is now forecast to average Cdn$3.26/gigajoule for the fiscal year, $0.99 lower than budget and $0.24 lower than second quarter.

Revenue from bonuses and sales of Crown leases is forecast at $2.3 billion, $1.7 billion higher than budget and $279 million higher than second quarter, due to high bid prices in the first part of 2010-11 and to an unexpected increase in the number of hectares sold.

Drilling stimulus initiatives are forecast to reduce revenue by $1.7 billion, $928 million more than estimated in budget and $140 million more than forecast at second quarter, due to a higher-than-expected number of credits being claimed by smaller companies, which are eligible for higher rates, and an increase in conventional oil drilling.

TAX REVENUE

Personal income tax revenue is forecast at $7.5 billion, $1.2 billion lower than budget and $49 million lower than second quarter, due mainly to lower-than-expected 2009 tax year assessment data. This requires a negative prior years' adjustment of $623 million for overstated 2008-09 and 2009-10 accrued revenue, and reduces the base used to forecast 2010-11. The lower base is the main reason for the further $553 million reduction to the forecast.

Corporate income tax revenue is forecast at $3.4 billion, $287 million higher than budgeted but $290 million lower than second quarter. Corporations' cash installment payments in 2009-10 were much stronger than initially forecast in *Budget 2010*, which prompted prior forecasts to be raised. 2010-11 installments have weakened.

Other tax revenue is forecast at $3.7 billion, $111 million lower than the budget estimate and $12 million lower than second quarter, due to lower fuel consumption, natural gas prices and cash receipts from insurance premiums, and refunds from property tax assessment adjustments.

TRANSFERS FROM GOVERNMENT OF CANADA

Federal transfers are forecast at $5.3 billion, $183 million higher than the *Budget 2010* estimate but $229 million lower than second quarter. Increases from budget comprise $130 million for Canada Health Transfer, $198 million for agriculture disaster and municipal flooding assistance, and $15 million for labour market programs. Decreases consist of $134 million in reduced agriculture support primarily from lower participation in the 2009-10 AgriStability program, and $26 million in net other transfers, mainly from Building Canada grants being provided directly to recipients by the federal government and to a lower estimated Alberta share of Canada's population.

INVESTMENT INCOME

Investment income is forecast at $1.9 billion, a decrease of $93 million from the budget estimate but $123 million higher than second quarter. Equity market performance was poorer than expected early in 2010, but Sustainability Fund income has increased due to its higher balance.

OTHER REVENUE

Other revenue is forecast at $4.3 billion, an increase of $237 million from budget and $63 million from second quarter. Increases consist of $80 million in gaming revenue, $63 million in ATB net income, $75 million in refunds of expense, mainly from recovery of prior-year capital grants from Alberta Health Services for projects which came in under budget, and $51 million in other revenue, primarily from highway project donations and gains on disposals of tax recovery lands. These are partially offset by decreases of $10 million in liquor revenue and a net $22 million in various premiums, fees and licences.

REVENUE

(millions of dollars)

	2010-11				
		3rd Quarter	Change from	2nd	
	Budget	Forecast	Budget	Quarter	Main Reasons for Change from Budget
Income Taxes					
Personal income tax	8,648	7,472	(1,176)	(49)	Lower-than-expected 2009 assessments
Corporate income tax	3,113	3,400	287	(290)	Higher-than-expected 2009-10 cash receipts
	11,761	10,872	(889)	(339)	
Other Taxes					
Education property tax	1,592	1,583	(9)	(9)	Refunds from assessment adjustments
Tobacco tax	880	890	10	10	Higher consumption
Fuel tax	760	715	(45)	(10)	Lower consumption
Freehold mineral rights tax	167	133	(34)	(3)	Lower natural gas prices
Insurance taxes	330	299	(31)	(1)	Lower-than-anticipated 2009-10 cash receipts
Tourism levy	63	61	(2)	1	Lower hotel rates and fewer stays
	3,792	3,681	(111)	(12)	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	1,861	1,654	(207)	(238)	Lower natural gas prices/higher exchange rate
Crude oil royalty	2,137	1,912	(225)	101	Higher exchange rate
Synthetic crude oil and bitumen royalty	3,249	3,567	318	274	Lower costs/higher oil prices
Coal royalty	35	35	-	1	
Bonuses and sales of Crown leases	630	2,333	1,703	279	Higher prices/number of hectares sold
Rentals and fees	135	161	26	4	Higher lease renewal rates
Drilling stimulus initiatives	(732)	(1,660)	(928)	(140)	Higher number of credits from smaller companies
	7,315	8,002	687	281	
Transfers from Government of Canada					
Health transfers	2,072	2,202	130	(64)	Decreased personal income tax revenue forecast
Canada Social Transfer	1,224	1,215	(9)	(11)	Lower population share
Agriculture support programs	357	295	(62)	(101)	Lower 2009-10 AgriStability participation
Other	1,437	1,561	124	(53)	Municipal assistance/labour market programs
	5,090	5,273	183	(229)	
Investment Income					
Alberta Heritage Savings Trust Fund	1,050	817	(233)	2	Weaker-than-expected equity markets
Endowment Funds:					
Medical Research	95	66	(29)	2	Weaker-than-expected equity markets
Science and Engineering Research	55	44	(11)	8	Weaker-than-expected equity markets
Scholarship	53	47	(6)	4	Weaker-than-expected equity markets
Alberta Capital Finance Authority	164	164	-	-	
Agriculture Financial Services Corporation	103	101	(2)	4	Lower loan balances from higher repayments
Sustainability Fund	285	500	215	100	Higher balance
Debt Retirement Account	38	45	7	3	Higher expected returns
Other	104	70	(34)	-	Lower balances
	1,947	1,854	(93)	123	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission					
Gaming and lottery revenue	1,292	1,372	80	30	Higher-than-anticipated activity
Liquor revenue	697	687	(10)	(10)	Lower sales volumes
Alberta Treasury Branches[a]	99	162	63	14	Lower loan losses/higher interest rate spreads
Other	9	10	1	-	Miscellaneous changes
	2,097	2,231	134	34	
Premiums, Fees and Licences					
Supplementary health benefits premiums	104	58	(46)	-	Rescinding of Seniors Drug Plan changes
Motor vehicle licences	369	378	9	9	Commercial registration renewal process change
Crop and hail insurance premiums	241	259	18	(3)	Higher participation and coverage levels
Energy Resources Conservation Board levies	115	115	-	-	
Timber rentals and fees	34	32	(2)	(1)	Lower demand for dispositions
Land titles	53	49	(4)	(4)	Lower housing activity
Other[a]	342	345	3	1	Miscellaneous changes
	1,258	1,236	(22)	2	
Other					
Refunds of expense	110	185	75	(4)	Recovery of prior-year health capital grants
Climate Change and Emissions Management	78	78	-	-	
Fines and penalties	114	114	-	-	
Miscellaneous	406	456	50	31	Highway project donations
	708	833	125	27	
Total Revenue	33,968	33,982	14	(113)	

[a] Budget numbers have been restated to reflect reporting of the estimated $30 million payment in lieu of taxes from Alberta Treasury Branches (ATB) as "Premiums, Fees and Licences – Other" revenue, rather than being included in "Net Income from Commercial Operations – ATB" revenue.

EXPENSE

TOTAL EXPENSE

Total expense is forecast at $38.8 billion, $87 million higher than the budget estimate, but $297 million lower than second quarter. Changes from budget consist of:

- $69 million net decrease in operating expense (increases of $38 million for First Nations settlements and a net $14 million in other operating expense are more than offset by a decrease of $121 million in net dedicated revenue-operating expense);
- $543 million net decrease in capital grants;
- $10 million decrease in amortization and nominal sum disposal expense;
- $240 million estimated in-year savings are now included in the above reductions totalling $622 million;
- $502 million increase in disaster/emergency assistance;
- $33 million decrease in debt servicing costs.

Disaster/emergency assistance – $502 million increase comprising $191 million for municipal flood recovery and wildfire assistance, $168 million in agriculture support, $110 million for forest fire-fighting costs and $33 million for mountain pine beetle / spruce budworm infestations.

Operating expense – $69 million net decrease. Additional funding mainly for Children and Youth Services programs, student loans, teachers' salaries, First Nations settlements, and income supports and health benefit programs are more than offset by lower expense mainly in Health and Wellness and Agriculture and Rural Development.

Capital grants – $543 million decrease primarily due to re-profiling health facility, school and carbon capture and storage grants to future years, partly offset by increases for seniors accommodation and post-secondary projects.

In-year operating expense limit – Operating expense increases, excluding those for First Nations settlements and dedicated revenue-operating expense, are limited by the *Fiscal Responsibility Act* to 1% of total budgeted ministry operating expense. In 2010-11, the limit is $332 million. Increases as of third quarter total a net $14 million.

MINISTRY EXPENSE CHANGES

Advanced Education and Technology – $102 million increase, including $75 million for student loans and a net $27 million in capital grants, mainly to accelerate funding for the Edmonton Clinic North.

Agriculture and Rural Development – $69 million net decrease. Increases for disaster assistance of $168 million (partly funded by $72 million in federal transfers) and for rural broadband access infrastructure of $10 million, are more than offset by decreases of $237 million for the 2009-10 and 2010-11 AgriStability programs (with a corresponding $137 million reduction in federal transfers), and a net $10 million in other programs, mainly due to lower hail insurance indemnities.

Children and Youth Services – $68 million increase for higher caseloads and costs in child intervention, child care and support to families with children with disabilities.

Education – $92 million net decrease. A $73 million increase for teachers' salaries and pension costs is offset by decreases of $138 million in capital grants, mainly re-profiled to 2011-12, and $27 million in other expense.

Employment and Immigration – $62 million increase primarily for income supports and health benefits, and training programs partly funded by increased federal transfers of $18 million.

Energy – $99 million decrease, due mainly to re-profiling carbon capture and storage capital grants to future years.

Health and Wellness – $211 million net decrease. Reductions of a net $295 million in operating expense, mainly related to the lower-than-estimated Alberta Health Services (AHS) 2009-10 deficit, $26 million in amortization and vaccine consumption expense, and $25 million in capital grants, are partially offset by increases of $50 million for AHS emergent pressures and $85 million for post-secondary health workforce spaces.

Infrastructure – $292 million net decrease. This includes decreases of a net $350 million in health capital grants re-profiled to future years (to use cash provided for projects in prior years first) and $18 million from re-classifying capital grants to capital investment, partially offset by increases of $51 million for other health projects, mainly the Villa Caritas mental health facility, and a net $25 million in other expense, mainly for the Wood Buffalo prisoner holding facility.

Seniors and Community Supports – $71 million increase, consisting of $40 million for supportive living projects and $31 million for caseload and cost pressures in the AISH and Alberta Aids to Daily Living programs.

Sustainable Resource Development – $155 million increase comprising $143 million in disaster assistance and a net $12 million mainly for nominal sum disposals of tax recovery lands to several municipalities.

Other ministries – $185 million net increase, including funding for municipal flood assistance, two First Nations settlements and Safe Communities initiatives.

Debt servicing costs – $33 million decrease, from in-year delayed borrowing and lower interest rates and Agriculture Financial Services Corporation 2009-10 borrowing.

EXPENSE SUMMARY

(millions of dollars)

	2010-11			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Program Expense				
Operating expense [a]	33,455	**33,507**	52	(12)
Dedicated revenue/operating expense net changes [b]	-	**(121)**	(121)	(98)
Net operating expense	33,455	**33,386**	(69)	(110)
Capital grants	4,406	**3,863**	(543)	(353)
Capital amortization and nominal sum disposals	759	**749**	(10)	(16)
In-year savings [c]	(240)	**-**	240	240
Disaster/emergency assistance	-	**502**	502	(32)
Total Program Expense	38,380	**38,500**	120	(271)
Debt Servicing Costs	336	**303**	(33)	(26)
Total Expense	38,716	**38,803**	87	(297)

[a] Prior to dedicated revenue/operating expense net changes; includes increases totalling $38 million for two First Nations settlements.

[b] Dedicated revenue/operating expense changes – Aboriginal Relations: $8 million reduction to First Nations Development Fund from lower gaming proceeds; Agriculture and Rural Development: $137 million reduction mainly in federal funding for 2009-10 AgriStability program; Employment and Immigration: $15 million increase primarily in federal funding for employment, training and income supports programs; net increase of $9 million in other ministries.

[c] Excluding increases for disaster/emergency assistance, program expense is $622 million lower than the *Budget 2010* forecast, consisting of savings of a net $69 million in operating expense, $543 million in capital grants and $10 million in amortization and nominal sum disposal expense.

EXPENSE BY MINISTRY

(millions of dollars)

	2010-11				
		3rd Quarter	Change from		
	Budget [a]	Forecast	Budget	2nd Quarter	Main Reasons for Change from Budget
Program					
Legislative Assembly	94	**92**	(2)	(2)	In-year savings
Aboriginal Relations	153	**185**	32	(9)	Bigstone Cree settlement
Advanced Education and Technology	3,226	**3,328**	102	27	Student loans / Edmonton Clinic North grant
Agriculture and Rural Development	1,055	**986**	(69)	(149)	Lower 2009-10 AgriStability participation
Children and Youth Services	1,106	**1,174**	68	(4)	Child intervention / child care / caseloads
Culture and Community Spirit	284	**288**	4	-	Grant for Art Gallery of Alberta
Education	6,078	**5,986**	(92)	(157)	Re-profiling of capital grants to 2011-12
Employment and Immigration	1,100	**1,162**	62	36	Income supports and health benefit programs
Energy	457	**358**	(99)	(36)	Carbon capture and storage capital grants
Environment	308	**310**	2	(7)	Siksika settlement / ecoTrust deferral
Executive Council	31	**31**	-	-	
Finance and Enterprise	1,082	**1,065**	(17)	(11)	Pre-1992 Teachers' Pension Plan payments
Health and Wellness	15,030	**14,819**	(211)	(27)	Lower 2009-10 Alberta Health Services deficit
Housing and Urban Affairs	491	**501**	10	4	Nominal sum disposals
Infrastructure	1,170	**878**	(292)	(135)	Re-profiling health infrastructure capital grants
International and Intergovernmental Relations	24	**24**	-	-	
Justice	479	**490**	11	(1)	Safe Communities initiatives
Municipal Affairs	1,030	**1,221**	191	(37)	Flood and wildfire disaster assistance
Seniors and Community Supports	1,995	**2,066**	71	16	ASLI capital grants / AISH caseloads
Service Alberta	280	**294**	14	12	Information and technology services
Solicitor General and Public Security	639	**639**	-	(4)	
Sustainable Resource Development	312	**467**	155	6	Forest fire-fighting / mountain pine beetles
Tourism, Parks and Recreation	176	**173**	(3)	(1)	Lower Travel Alberta expense
Transportation	1,964	**1,918**	(46)	(27)	Re-profiling / direct provision of federal grants
Treasury Board	56	**45**	(11)	(5)	Transfers to other ministries
In-year savings	(240)	**-**	240	240	Savings allocated among ministries
Total Program Expense	38,380	**38,500**	120	(271)	
Debt Servicing Costs	336	**303**	(33)	(26)	Delayed borrowing / lower AFSC borrowing
Total Expense	38,716	**38,803**	87	(297)	

[a] Budget numbers have been restated to reflect the transfer of responsibility for the Agency Governance Secretariat from Executive Council to Treasury Board.

CAPITAL PLAN

2010-11 Capital Plan spending (capital grants and other support included in expense, and capital investment in government-owned assets not included in expense) is forecast at $6.3 billion, $947 million lower than budget and $665 million lower than second quarter, primarily due to re-profiling of various projects to future years.

Municipal Infrastructure Support – $1.7 billion, a decrease of $39 million from budget, mainly due to Building Canada grants being provided directly to municipalities by the federal government and to some re-profiling of federal stimulus funds.

Provincial Highway Network – $1.7 billion, $206 million lower than budget. Decreases of $269 million in 2010-11 savings on the SE Stoney Trail Calgary ring road P3 and $190 million from re-profiling projects to future years, are partially offset by increases of $219 million in projects carried over from 2009-10 and $34 million in other projects mostly funded by dedicated revenue.

Health Facilities and Equipment – $473 million, a decrease of $329 million from budget. Reductions include $350 million in Alberta Health Services (AHS) capital grants re-profiled to future years, to use cash provided in prior years first, $16 million re-classified as operating expense, and a net $14 million in other lapses and transfers to other Capital Plan envelopes. These are offset by increases for other projects totalling $51 million, mainly for the Villa Caritas mental health facility.

Post-secondary Facilities – $605 million, an increase of $27 million from budget, reflecting $32 million being re-profiled from future fiscal years for the Edmonton Clinic North, partly offset by decreases of $5 million mainly from transferring funds to operating expense.

Schools – $391 million, a decrease of $125 million from budget. A net $138 million in projects re-profiled mainly to 2011-12 is partially offset by increases of $12 million as part of the Bigstone Cree land claim settlement and a net $1 million in other capital expense.

Community Facilities – $119 million, a $1 million increase from budget. Increases of $4 million for carried-over 2009-10 projects and $3 million for the Art Gallery of Alberta are partially offset by re-profiling of projects to future years.

Water and Wastewater Management – $163 million, a $4 million decrease. Lapses of $7 million are partly offset by $3 million mainly for carried-over 2009-10 projects.

Housing – $351 million, a $1 million decrease from budget. A net increase of $39 million for Affordable Supportive Living Initiative projects and $4 million in CEP funding transferred from the government facilities envelope, is offset by a $44 million decrease, primarily due to re-profiling Parsons Creek projects to future years.

Government Facilities, Equipment and Other Capital – $762 million, $271 million lower than budget. Increases of $97 million for carried-over 2009-10 projects and a net $35 million primarily for the Wood Buffalo prisoner holding facility and rural broadband access, are offset by re-profiling $382 million to future years, mainly for information management and technology, carbon capture and storage and the Federal Building, and by decreases of $21 million in funding transferred to other Capital Plan envelopes and to operating expense.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2010-11			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Municipal infrastructure support	1,776	**1,737**	(39)	(19)
Provincial highway network	1,866	**1,660**	(206)	(155)
Health facilities and equipment	802	**473**	(329)	(138)
Post-secondary facilities	578	**605**	27	27
Schools	516	**391**	(125)	(160)
Community facilities	118	**119**	1	(2)
Water and wastewater management	167	**163**	(4)	(7)
Housing	352	**351**	(1)	(74)
Government facilities, equipment and other capital	1,033	**762**	(271)	(137)
Total Capital Plan	7,208	**6,261**	(947)	(665)

CAPITAL GRANTS AND OTHER INFRASTRUCTURE SUPPORT[a]

(millions of dollars)

	2010-11			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Aboriginal Relations	-	**12**	12	-
Advanced Education and Technology	578	**605**	27	27
Agriculture and Rural Development	30	**40**	10	10
Children and Youth Services	15	**9**	(6)	(6)
Culture and Community Spirit	84	**89**	5	1
Education	513	**375**	(138)	(161)
Energy	100	-	(100)	(35)
Environment	94	**88**	(6)	(6)
Health and Wellness	96	**71**	(25)	(2)
Housing and Urban Affairs	234	**230**	(4)	-
Infrastructure	689	**380**	(309)	(144)
Municipal Affairs	828	**831**	3	3
Seniors and Community Supports	50	**90**	40	(15)
Tourism, Parks and Recreation	1	**1**	-	-
Transportation	1,084	**1,042**	(42)	(22)
Treasury Board	10	-	(10)	(3)
Total	4,406	**3,863**	(543)	(353)

[a] Included in program expense. Includes support for project planning, and accommodation and facility preservation.

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2010-11 Capital Investment				2010-11 Capital Amortization			
		3rd Quarter	Change from			3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter	Budget	Forecast	Budget	2nd Quarter
Legislative Assembly	3	**3**	-	-	1	**2**	1	1
Advanced Education and Technology	8	**8**	-	-	6	**5**	(1)	(1)
Agriculture and Rural Development	14	**14**	-	-	14	**15**	1	1
Children and Youth Services	2	**4**	2	2	4	**2**	(2)	(2)
Culture and Community Spirit	3	**2**	(1)	(1)	3	**3**	-	-
Education	1	**5**	4	1	1	**1**	-	-
Employment and Immigration	4	**5**	1	1	3	**3**	-	-
Energy	28	**28**	-	-	21	**21**	-	-
Environment	1	**1**	-	-	22	**22**	-	-
Finance and Enterprise	32	**28**	(4)	(4)	11	**11**	-	-
Health and Wellness	78	**69**	(9)	(9)	80	**54**	(26)	(2)
Housing and Urban Affairs	68	**32**	(36)	(58)	24	**24**	-	-
Infrastructure	407	**372**	(35)	(45)	82	**85**	3	3
Justice	4	**2**	(2)	-	8	**8**	-	-
Municipal Affairs	1	**1**	-	-	2	**2**	-	-
Seniors and Community Supports	1	**1**	-	-	1	**1**	-	-
Service Alberta	133	**33**	(100)	-	52	**41**	(11)	(11)
Solicitor General and Public Security	25	**67**	42	25	3	**4**	1	1
Sustainable Resource Development	24	**30**	6	1	16	**16**	-	-
Tourism, Parks and Recreation	21	**22**	1	-	18	**18**	-	-
Transportation	1,881	**1,671**	(210)	(162)	386	**381**	(5)	(5)
Treasury Board	63	-	(63)	(63)	1	**1**	-	-
Total	2,802	**2,398**	(404)	(312)	759	**720**	(39)	(15)

[a] Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventory.

NET FINANCIAL AND CAPITAL ASSETS

Net Assets – Forecast at March 31, 2011 to be $36 billion, $35 million higher than the *Budget 2010* estimate but $5.3 billion lower than at March 31, 2010. Net assets consist of financial assets of $50.6 billion, $4.2 billion lower than at March 31, 2010, capital assets of $19.2 billion, $1.6 billion higher than at March 31, 2010, less liabilities of $33.8 billion, $2.8 billion higher than at March 31, 2010.

Heritage and Endowment Funds – The forecast book value of Heritage Fund assets is $14.1 billion, an increase of $304 million from March 31, 2010, due to inflation-proofing. Total assets of endowments and other funds are forecast to be $3.2 billion, $8 million lower than March 31, 2010 and $37 million lower than the budget forecast, mainly due to lower expected returns.

Sustainability Fund – Assets are forecast at $11.2 billion at March 31, 2011, $3 billion higher than the budget estimate, but $3.8 billion lower than at March 31, 2010. The increase from budget is due mainly to $2.2 billion from 2009-10 fourth quarter results being transferred into the Fund from "other financial assets" during 2010-11, a positive swing in energy cash adjustments and lower capital spending cash requirements. The decrease from 2010 is due to withdrawals of $4.8 billion to offset the deficit and $1.2 billion for various cash requirements and Heritage Fund inflation-proofing, partly offset by the deposit of $2.2 billion in 2009-10 fourth quarter results.

Total Liabilities – Forecast at $33.8 billion, an increase of $2.8 billion from March 31, 2010 and $145 million higher than the budget estimate. The change from 2010 is due mainly to a $1.4 billion increase in liabilities for capital projects, reflecting $1.1 billion in planned direct borrowing and $0.3 billion in P3 projects, a $450 million increase in pension liabilities, and increased liabilities of self-supporting lending organizations, more than offset by increased assets. The increase from budget is due mainly to higher Alberta Capital Finance Authority activity. ACFA increased borrowing is matched by increased loans/assets.

BALANCE SHEET

(millions of dollars)

	at March 31				
	2010	2011			
			3rd Quarter	Change from	
	Actual	Budget [a]	Forecast	Budget	2010 Actual
Financial Assets					
Heritage Fund	13,838	14,129	**14,142**	13	304
Self-supporting lending organizations [b]	10,671	11,857	**12,399**	542	1,728
Alberta Sustainability Fund	14,983	8,216	**11,192**	2,976	(3,791)
Endowment and other funds [c]	3,239	3,268	**3,231**	(37)	(8)
Equity in commercial enterprises	2,478	2,629	**2,661**	32	183
Debt Retirement Account	1,107	843	**843**	-	(264)
Other financial assets	8,489	9,127	**6,176**	(2,951)	(2,313)
Total Financial Assets	54,805	50,069	**50,644**	575	(4,161)
Liabilities					
Accumulated debt	1,092	828	**828**	-	(264)
Pension liabilities	9,279	9,823	**9,729**	(94)	450
Self-supporting lending organizations [b]	10,035	11,044	**11,426**	382	1,391
Liabilities for capital projects	2,888	4,425	**4,303**	(122)	1,415
Other liabilities	7,773	7,558	**7,537**	(21)	(236)
Total Liabilities	31,067	33,678	**33,823**	145	2,756
Net Financial Assets	23,738	16,391	**16,821**	430	(6,917)
Capital Assets	17,532	19,573	**19,178**	(395)	1,646
Net Assets	41,270	35,964	**35,999**	35	(5,271)
Adjustment for pension liabilities	9,279	9,823	**9,729**	(94)	450
Net Assets for Fiscal Policy Purposes [d]	50,549	45,787	**45,728**	(59)	(4,821)

[a] Budget numbers have been restated to reflect 2009-10 actual results. The $2.2 billion in cash from 2009-10 fourth quarter results transferred into the Sustainability Fund after March 31, 2010 is reported in "Other financial assets" in Budget numbers.

[b] Includes Alberta Capital Finance Authority and Agriculture Financial Services Corporation.

[c] Includes the Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Heritage Scholarship Fund, Alberta Cancer Prevention Legacy Fund, and Alberta Enterprise Corporation.

[d] Under the *Fiscal Responsibility Act*. Excludes pension liabilities, and equity of Crown-controlled SUCH sector organizations and Alberta Innovates corporations.

CASH ADJUSTMENTS[a]

(millions of dollars)

	2010-11			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Capital Cash Adjustments				
Requirements				
Capital investment	(2,802)	**(2,398)**	404	312
Principal repayment for alternatively-financed projects	(13)	**(11)**	2	2
Total requirements	(2,815)	**(2,409)**	406	314
Sources				
Capital amortization	759	**720**	(39)	(14)
Net book value of capital asset disposals	2	**10**	8	3
Alternatively-financed capital investment	355	**259**	(96)	1
Alternatively-financed capital grants	80	**67**	(13)	(12)
Direct borrowing	1,100	**1,100**	-	-
Total sources	2,296	**2,156**	(140)	(22)
Total capital cash adjustments	(519)	**(253)**	266	292
Retained Income of Funds and Agencies Cash Adjustments				
Alberta Treasury Branches	(99)	**(162)**	(63)	(14)
Agriculture Financial Services Corporation	(186)	**(186)**	-	5
Endowment funds	(42)	**1**	43	(14)
Other funds	(14)	**(10)**	4	13
Total retained income of funds and agencies cash adjustments	(341)	**(357)**	(16)	(10)
Other Cash Adjustments				
Energy royalties	(746)	**57**	803	(149)
Student loans	(80)	**(92)**	(12)	-
Other	(42)	**(251)**	(209)	(94)
Total other cash adjustments	(868)	**(286)**	582	(243)

[a] Negative cash adjustments are a cash requirement; positive cash adjustments are a cash source.

DISASTER/EMERGENCY ASSISTANCE

(millions of dollars)

	2010-11			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Agriculture and Rural Development	-	**168**	168	(3)
Municipal Affairs (flood and wildfire assistance)	-	**191**	191	(37)
Sustainable Resource Development				
Forest fires	-	**110**	110	(10)
Mountain pine beetle / spruce budworm	-	**33**	33	18
Total Disaster/Emergency Assistance	-	**502**	502	(32)

2010–11 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES[a]

	Sensitivities		Assumptions			
	Change	Net Impact ($ million)	Budget	1st Quarter Forecast	2nd Quarter Forecast	3rd Quarter Forecast
Oil price - WTI (US$/bbl)	-$1.00	-186	78.75	80.00	79.42	**81.45**
Natural gas price - Alberta Reference Price (Cdn$/GJ)	-10 cents	-93	4.25	3.75	3.50	**3.26**
Exchange rate (US¢/Cdn$)	+1 cent	-215	95.00	96.75	96.19	**97.96**
Interest rates	+1%	-141				
3-month Canada treasury bills (per cent)			1.30	1.25	0.95	**0.75**
10 year Canada bonds (per cent)			4.05	3.90	3.25	**3.15**
Personal income growth (2010 calendar year)	-1%	-127	3.4%	2.4%	2.8%	**3.9%**
Production assumptions						
Oil sands (000s barrels/day)			1,771	1,775	1,709	**1,631**
Conventional crude oil (000s barrels/day)			424	475	471	**471**
Natural gas (billions of cubic feet/annum)			4,284	4,359	4,385	**4,464**
Alberta Wellhead - conventional oil (Cdn$/bbl)			72.20	72.82	72.34	**72.45**
Bitumen @ Cold Lake (Cdn$/bbl)			56.38	56.41	51.51	**56.12**

[a] Sensitivities are based on the *Budget 2010* assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land sales. The interest rate sensitivity has two components, an increase in cash interest income and capital loss. When interest rates rise, bond prices go down, causing a capital loss.

NET FINANCING REQUIREMENTS[a]

(millions of dollars)

	2010-11			
		3rd Quarter Forecast	Change from	
	Budget		Budget	2nd Quarter
Net Financing Requirements				
Accumulated debt:				
General Revenue Fund term debt maturities	202	**202**	-	-
School construction loan repayments	37	**37**	-	-
Alberta Social Housing Corporation debt repayment	25	**25**	-	-
Total accumulated debt financing requirements	264	**264**	-	-
Direct borrowing for capital purposes	1,100	**1,100**	-	-
Agriculture Financial Services Corporation term borrowing requirements	470	**495**	25	25
Gross financing requirements	1,834	**1,859**	25	25
Cash applied to accumulated debt repayment	(264)	**(264)**	-	-
Total net financing requirements	1,570	**1,595**	25	25
Financing Completed to Date				
Direct borrowing for capital purposes	-	-	-	-
Agriculture Financial Services Corporation	-	**208**	208	-
Total financing completed to date	-	**208**	208	-

[a] Does not include alternative financing for capital projects (P3s) or financing requirements of Alberta Capital Finance Authority or ATB Financial.

ACTUAL RESULTS

ACTUAL RESULTS

FOR THE FIRST NINE MONTHS OF 2010–11

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2010.*

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are included on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to those entities.

The accounts of the Alberta Innovates Corporations and the Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes, and Alberta Health Services that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are consolidated on a line by line basis in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and deficit.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense excludes the change in the unfunded pension liabilities, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2009-10 figures have been restated where necessary to conform to the 2010-11 presentation.

CONSOLIDATED FISCAL SUMMARY

for the nine months ended December 31, 2010

(millions of dollars)

	First Nine Months		
	2010-11	**2009-10**	**Change**
Revenue			
Income taxes	7,682	8,717	(1,035)
Other taxes	2,571	2,489	82
Non-renewable resource revenue	5,900	4,721	1,179
Transfers from Government of Canada	3,426	3,301	125
Net income from commercial operations	1,785	1,747	38
Premiums, fees and licences	969	875	94
Investment income	1,612	2,612	(1,000)
Other	691	547	144
Total Revenue	**24,636**	**25,009**	**(373)**
Expense			
Program Expense			
Legislative Assembly	61	58	3
Aboriginal Relations	98	102	(4)
Advanced Education and Technology	2,584	2,262	322
Agriculture and Rural Development	777	1,263	(486)
Children and Youth Services	871	857	14
Culture and Community Spirit	168	178	(10)
Education	4,400	4,402	(2)
Employment and Immigration	844	837	7
Energy	218	258	(40)
Environment	174	195	(21)
Executive Council	20	20	-
Finance and Enterprise	838	689	149
Health and Wellness	10,852	8,933	1,919
Housing and Urban Affairs	235	532	(297)
Infrastructure	383	367	16
International and Intergovernmental Relations	15	17	(2)
Justice	328	331	(3)
Municipal Affairs	1,136	498	638
Seniors and Community Supports	1,523	1,470	53
Service Alberta	183	208	(25)
Solicitor General and Public Security	459	446	13
Sustainable Resource Development	326	374	(48)
Tourism, Parks and Recreation	115	137	(22)
Transportation	1,091	1,474	(383)
Treasury Board	27	29	(2)
Total Program Expense	**27,726**	**25,937**	**1,789**
Debt servicing costs	212	147	65
Total Expense	**27,938**	**26,084**	**1,854**
Deficit	**(3,302)**	**(1,075)**	**(2,227)**

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Finance and Enterprise